

**OFFICE OF THE TREASURER**

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# The Treasury Note

A monthly newsletter of California municipal finance.

June 1, 2003

## May Revision to the Governor's 2003-04 Budget

The May Revision to the Governor's 2003-04 Budget was released on May 14. It reflects a decrease in cuts and savings, realignments and transfers, with an increase in funds shifts, loans, and borrowings. The May Revision reflects the need to bridge a substantial budget gap between projected revenues and projected expenditures in the absence of corrective actions. The total budget gap, including the 2002-03 and 2003-04 fiscal years, was revised to \$38.2 billion from the \$34.2 billion estimated in January. The budget gap is closed with a total of \$18.9 billion in cuts and savings, \$6.9 billion in fund shifts, transfers and loans, \$1.7 billion in program realignment to local governments, and \$10.7 billion in deficit financing.

Prior to the May Revision, several steps were taken by the administration to deal with the budget gap, including directing state departments to freeze spending and immediately reduce nonessential functions in the current year. In March and April 2003, the Legislature

approved reductions of \$6.9 billion (\$3.3 billion in March and \$3.6 billion in April).

To date, the State's economy and General Fund revenues have generally followed the January forecast, however increased expenditures and cancellation of the second installment of the tobacco securitization bonds have increased the budget gap.

The May Revision reflects part of the current year deficit being financed over a multi-year period with the budget year being balanced through a combination of cuts and a narrower realignment package. State government operations and programs also will see significant cuts, with a spending decrease of \$7.6 billion.

### The Governor's Budget Gap Solution

(Dollars in millions)

|                   | <u>January 10</u> | <u>May Revision</u> |
|-------------------|-------------------|---------------------|
| Cuts/Savings      | \$20,728.3        | \$18,875.4          |
| Realignments      | 8,154.0           | 1,732.4             |
| Fund Shifts       | 1,902.7           | 2,076.3             |
| Transfers         | 2,114.3           | 1,912.6             |
| Loans/Borrowing   | 1,683.3           | 2,901.5             |
| Deficit Financing |                   | 10,700.0            |
| <b>Totals</b>     | <b>\$34,582.7</b> | <b>\$38,198.2</b>   |

For additional information regarding the May Revision to the Governor's 2003-04 Budget please visit the Department of Finance's website at [http://www.dof.ca.gov/HTML/BUD\\_DOCS/Bud\\_link.htm](http://www.dof.ca.gov/HTML/BUD_DOCS/Bud_link.htm).

Information related to the State Treasurer's Office can be obtained at [www.treasurer.ca.gov](http://www.treasurer.ca.gov) or by contacting Investor Relations at (800) 900-3873.

### Revised General Fund Budget Gap

(Dollars in billions)

|                                           |                |
|-------------------------------------------|----------------|
| <b>Budget Gap at Governor's Budget</b>    | <b>-\$34.6</b> |
| Caseload and Estimate Increases           | -1.5           |
| Increased Proposition 98 Expenditures     | -0.7           |
| Canceled Tobacco Securitization Bond Sale | -2.0           |
| Tobacco Settlement Fund Backfill of GF    | 0.2            |
| Estimated Net Revenue Decrease 2002-03    | -0.4           |
| Estimated Net Revenue Increase 2003-04    | 0.7            |
| Past/Prior year Adjustment Gain           | 0.1            |
| <b>Total Changes in Budget Gap</b>        | <b>-\$3.6</b>  |
| <b>Revised Budget Gap at May Revision</b> | <b>-\$38.2</b> |

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## Recent Bond Sale Appointments

### June 2003 General Obligation Bond Sale

**Book-running Senior Manager:** Morgan Stanley **Co-Senior Managers:** Merrill Lynch & Co.; Lehman Brothers; and Siebert Brandford Shank & Co., LLC  
**Bond Counsel:** Orrick, Herrington & Sutcliffe LLP **Co-Bond Counsel:** Law Office of Joaquin A. Talleda  
**Disclosure Counsel:** Sidley Austin Brown & Wood LLP **Financial Advisor:** Public Resources Advisory Group

### State of California – Pension Obligation Bonds

**Book-Running Senior Manager:** UBS PaineWebber Inc. **Co-Senior Managers:** Lehman Brothers; Siebert Brandford Shank & Co. LLC; and Stone & Youngberg LLC; **Co-Managers:** A.G. Edwards & Sons, Inc.; Apex Pryor Securities, Inc.; Banc of America Securities LLC; Bear, Stearns & Co. Inc.; CIBC World Markets Corp.; Citigroup Global Markets, Inc.; City National Securities, Inc.; E.J. De La Rosa & Co., Inc.; First Albany Corporation; Goldman, Sachs & Co.; Great Pacific Securities, Inc.; Henderson Capital Partners, LLC; J.P. Morgan Securities Inc.; Jackson Securities Incorporated; Loop Capital Markets; M.R. Beal & Company; Merrill Lynch & Co.; Morgan Stanley; Prager McCarthy & Sealy, LLC; Prudential Securities Incorporated; Ramirez & Co., Inc.; RBC Dain Rauscher; Redwood Securities Group, Inc.; and Roberts and Ryan Investments, Inc.; **Bond Counsel:** Orrick, Herrington & Sutcliffe LLP **Co-Bond Counsel:** Law Offices of Elizabeth C. Green **Disclosure Counsel:** Nixon Peabody LLP **Financial Advisor:** Kelling, Northcross & Nobriga and Tamalpais Advisors, Inc.

### State of California – Revenue Anticipation Notes

**Book-Running Senior Manager:** Lehman Brothers **Co-Senior Managers:** Siebert Brandford Shank & Co., LLC; Morgan Stanley; Goldman, Sachs & Co.; Banc of America Securities LLC **Co-Managers:** A.G. Edwards & Sons, Inc.; Bear, Stearns & Co. Inc.; Banc One Capital Markets Inc.; CIBC World Markets Corp.; Citigroup Global Markets, Inc.; Commerce Capital Markets; E.J. De La Rosa & Co., Inc.; First Albany Corporation; Great Pacific Securities, Inc.; Jackson Securities Incorporated; J.P. Morgan Securities Inc.; Loop Capital Markets; Merrill Lynch & Co.; ; Quick & Reilly, Inc.; Ramirez & Co., Inc.; RBC Dain Rauscher; Redwood Securities Group, Inc.; Roberts and Ryan Investments, Inc.; Stone & Youngberg LLC; UBS Paine Webber Inc.; US Bancorp Piper Jaffray; and Wells Fargo Institutional Securities, Inc. **Note Counsel:** Orrick, Herrington & Sutcliffe LLP **Co-Note Counsel:** Curls, Brown & Duran LLP **Disclosure Counsel:** Sidley Austin Brown & Wood **Pricing Advisor:** Public Resources Advisory Group

## Redemptions & Defeasances

Please visit our website for the most up to date redemption and defeasance information at <http://www.treasurer.ca.gov/Bonds/redemptions/redemptions.asp>.

## Bond Sales Calendar

If you are interested in purchasing any of the bonds listed below, please contact your broker two weeks before the sale date. For up to date information, check our website ([www.treasurer.ca.gov](http://www.treasurer.ca.gov)) or contact *Investor Relations* at (800) 900-3873.

| PROPOSED BOND SALES <sup>(1, 2)</sup>                                          | AMOUNT <sup>(1)</sup> | SALE DATE <sup>(1)</sup> |
|--------------------------------------------------------------------------------|-----------------------|--------------------------|
| General Obligation Bonds – Fixed Rate/Restructuring                            | \$1.75 billion        | June 18, 2003            |
| California Infrastructure and Economic Development Bank – State Revolving Fund | \$75 million          | Summer 2003              |
| California Infrastructure and Economic Development Bank – Bay Bridge Seismic   | \$750 - \$950 million | Summer/Fall 2003         |
| Revenue Anticipation Notes                                                     | \$3 billion           | Summer/Fall 2003         |

<sup>1</sup> Subject to change

<sup>2</sup> Economic refundings may be added

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